



WEEKLY ECONOMIC DIGEST

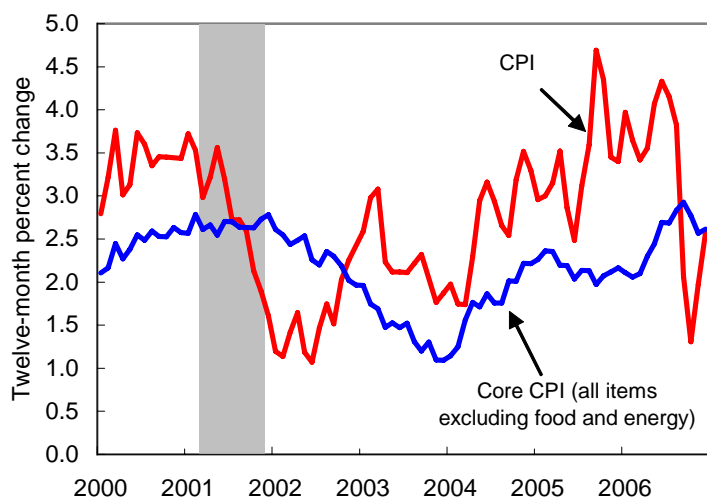


JOINT ECONOMIC COMMITTEE
SENATOR CHARLES E. SCHUMER (D-NY)

January 19, 2007

Inflation and Economic Activity Picked Up in December But Risks Remain

Consumer Price Indexes



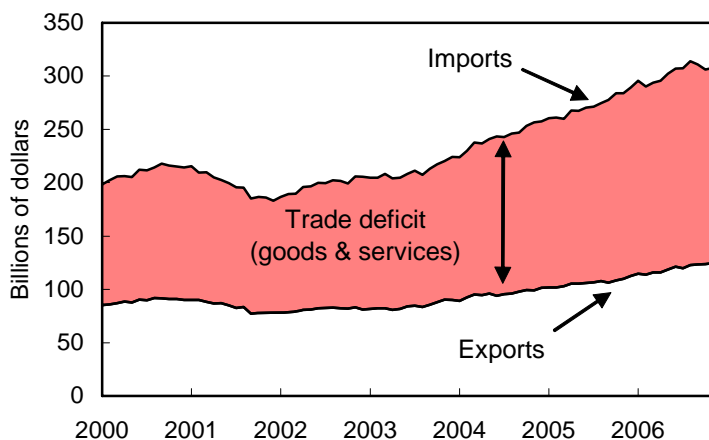
Sources: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research.

Note: The gray area indicates a period of recession as defined by the National Bureau of Economic Research.

- **Consumer prices rose in December.** The consumer price index (CPI) rose by 0.5 percent last month, its first increase in four months. Energy price volatility continued, with energy prices rising by 4.6 percent in December after declining by 13.9 percent over the previous three months. The core CPI (which excludes the volatile food and energy prices) rose a moderate 0.2 percent in December. Over the past 12 months, both the overall CPI and the core CPI rose by 2.6 percent (see top chart).

- **Retail sales and industrial production both rose at year's end.** Total sales at retail establishments and food services rose by 0.9 percent in December to a level 5.4 percent higher than a year earlier. Industrial production in manufacturing, mining, and utilities increased by 0.4 percent last month, the first rise since August. Over the course of 2006, industrial production rose 3.0 percent. The percent change over the year in both retail sales and industrial production were slightly less in 2006 than they were in 2005

U.S. International Trade in Goods and Services



Source: Census Bureau and Bureau of Economic Analysis, U.S. Department of Commerce.

- **New homebuilding rose in December but remains weak.** The number of new privately owned housing units started rose by 4.5 percent last month to 1.642 million units at a seasonally-adjusted annual rate. Unseasonably warm temperatures through much of the country helped boost starts in December. Even so, overall new homebuilding was 18.0 percent below its level at the end of 2005, and permits to build were 24.3 percent below a year earlier.

- **Despite narrowing slightly last month, the trade deficit remains large.** The monthly deficit for international trade in goods and services (imports minus exports) declined by \$0.6 billion in November to \$58.2 billion. Exports rose by \$1.1 billion while imports rose by \$0.5 billion. Despite the slight narrowing of the trade deficit in recent months (see bottom chart), which is due mainly to declining oil imports, the annual trade deficit for 2006 is on track to surpass the 2005 deficit of \$717 billion.

The Economy at a Glance	Dec	Nov	Oct	Sep	2006 Qtr 4	2006 Qtr 3	2006 Qtr 2	2006 Qtr 1	2006	2005
Economic Activity										
Real GDP (% growth)	—	—	—	—	n.a.	2.0	2.6	5.6	n.a.	3.2
Industrial Production (% growth)	4.9	-1.2	-1.2	-3.5	-0.5	4.0	6.5	5.0	4.0	3.2
Capacity Utilization (level, %)	81.8	81.6	81.8	82.0	81.7	82.3	82.0	81.2	81.8	80.2
Civilian Unemployment Rate (level, %)	4.5	4.5	4.4	4.6	4.5	4.7	4.7	4.7	4.6	5.1
Housing Starts (thousands)	1642	1572	1478	1724	1564	1714	1873	2123	1819	2073
Real Disposable Personal Income (% growth)	n.a.	3.3	5.3	10.8	n.a.	4.1	-1.5	4.6	n.a.	1.2
Retail Sales (% growth)	11.1	7.1	-2.5	-6.9	0.3	3.7	3.3	12.8	6.3	7.2
Personal Saving Rate (level, %)	n.a.	-1.0	-0.7	-0.7	n.a.	-1.2	-1.4	-0.3	n.a.	-0.4
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	6.2	0	-5.8	-5.8	-2.2	2.9	5.0	2.2	3.2	3.4
Core CPI-U Inflation (% growth)	2.4	0	1.2	2.4	1.8	3.0	3.5	2.4	2.5	2.2
Compensation per hour (% growth)	—	—	—	—	n.a.	4.1	3.6	2.4	n.a.	3.3
Output per hour (% growth)	—	—	—	—	n.a.	0.2	1.2	4.3	n.a.	2.3
Financial Markets										
T-bill Rate, 3-month (level, %)	4.85	4.94	4.92	4.81	4.90	4.91	4.70	4.39	4.73	3.15
T-note Rate, 10-years (level, %)	4.56	4.60	4.73	4.72	4.63	4.90	5.07	4.57	4.80	4.29
Federal Funds Rate (level, %)	5.24	5.25	5.25	5.25	5.25	5.25	4.91	4.46	4.97	3.22
Dow Jones Industrial Avg (index level)	12378	12185	11963	11534	12175	11274	11189	10996	11409	10548

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

Upcoming Economic Releases:

- **Existing Home Sales: December 2006** [Release: Thursday, January 25]
- **Advance Report on Durable Goods Manufacturers' Shipment, Inventories and Orders: December 2006** [Release: Friday, January 26]
- **New Residential Sales: December 2006** [Release: Friday, January 26]